CPI Inflation Jumps to 5-month High in September as Food Prices Rise

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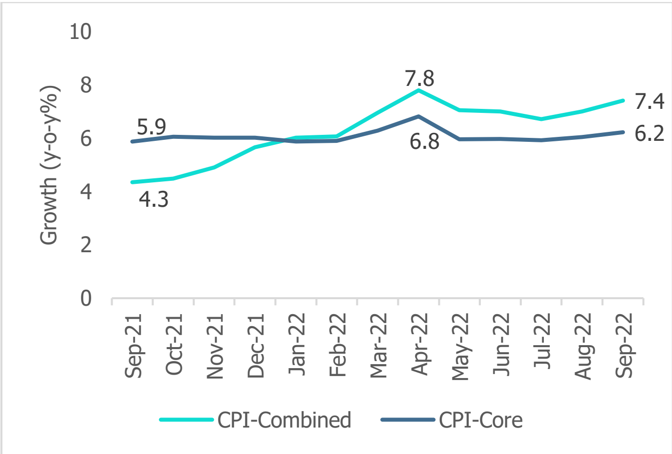
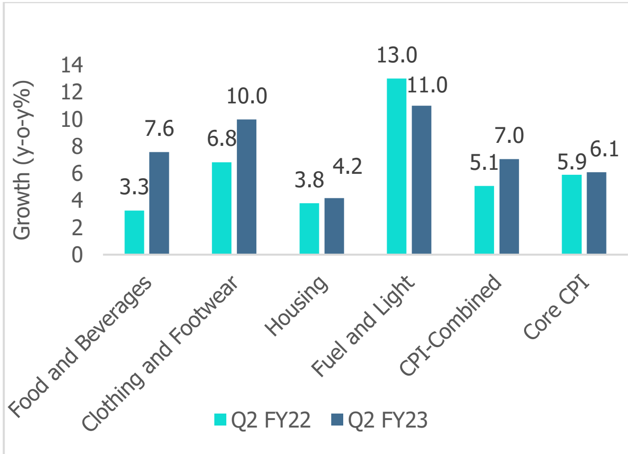
The CPI inflation rose to a 5-month high of 7.4% in September primarily led by a rise in food inflation. The core inflation also increased to 6.2% (from 6% in August). This marks the second consecutive month in which inflation has inched upward. The inflation print was marginally higher than the CareEdge expectation of 7.3%.

With the September inflation number, the CPI inflation has averaged 7.0% in Q2 FY23, slightly lower than the RBI's estimate of 7.1%. Inflation in the second quarter has been mainly driven by the food segment.

CPI vs. Core Inflation



Major Categories - CPI Inflation



Source: MOSPI and CareEdge

Food and beverage inflation shot up to 8.4% in September from 7.6% in August led by an increase in prices for cereals, pulses, vegetables and milk. The top two contributors to the overall inflation were cereals and vegetables. The share of cereals inflation (with a weightage of 9.67% in the CPI basket) in the overall inflation has more than doubled since the beginning of this fiscal. This is mainly because of the acceleration in wheat and rice inflation due to limited supply. The first advance estimates of output of the Kharif crops for 2022–2023 show that the rice production during the current season is 6% lower than the previous season. The government has, therefore, imposed a 20% levy on rice exports of various grades to enhance domestic availability.

Vegetable inflation rose to 18% in September (from 13.3% in August) due to a combination of base effect and sequential rise in prices of key vegetables like tomato, potato and onion. Vegetable inflation has remained in double-digits for seven months in a row now. Rising costs for fodder have been pushing milk inflation higher (7.1% in September). Edible oil inflation continued on a downward trajectory, decelerating from double-digit inflation in the beginning of this fiscal year to 0.4% in September. This was helped by a fall in global edible oil prices and concessional import duties.

Fuel and light inflation eased marginally to 10.4% in September from 10.8% in August due to moderation in LPG and kerosene prices. Clothing and footwear inflation rose slightly to 10.2% vs. 9.9% in the previous month.

Component-Wise Retail Inflation (y-o-y%)

	Food & Beverages	Pan, Tobacco & Intoxicants	Clothing & Footwear	Housing	Fuel & Light	Miscellaneous	Total
Weight	**45.86**	**2.38**	**6.53**	**10.07**	**6.84**	**28.32**	**100.00**
Sep-21	1.61	4.23	7.22	3.58	13.63	6.38	4.35
Oct-21	1.82	4.27	7.53	3.54	14.35	6.83	4.48
Nov-21	2.60	4.05	7.94	3.66	13.35	6.75	4.91
Dec-21	4.47	3.16	8.30	3.61	10.95	6.65	5.66
Jan-22	5.58	2.45	8.78	3.52	9.32	6.55	6.01
Feb-22	5.93	2.39	8.86	3.57	8.73	6.58	6.07
Mar-22	7.47	2.98	9.40	3.38	7.52	7.02	6.95
Apr-22	8.10	2.70	9.85	3.47	10.67	8.03	7.79
May-22	7.84	1.15	8.85	3.65	9.54	6.82	7.04
Jun-22	7.56	1.83	9.52	3.93	10.14	6.28	7.01
Jul-22	6.71	1.78	9.85	3.90	11.76	5.91	6.71
Aug-22	7.57	1.67	9.91	4.06	10.78	5.95	7.00
Sep-22	8.41	1.98	10.17	4.57	10.39	6.06	7.41

Source: MOSPI

Way Forward

The CPI inflation has marched upward for the second consecutive month in September due to a spike in food inflation. Food prices, especially of cereals, milk and vegetables are the main culprits here. The recent rise in food inflation is exacerbated by the seasonal phenomenon and the fresh arrival of Kharif output would provide some comfort on that front. RBI would be concerned about high food inflation and its adverse impact on inflationary expectations. Further rise in core inflation highlights the deep penetration of inflation and is concerning. The weakening of rupee and its adverse impact on imported inflation is another concern area. However, we expect CPI inflation to moderate from October, supported by base effect.

September quarter marks the third consecutive quarter where the CPI inflation has breached the RBI's target range. This along with consistent weakening of rupee could add pressure on the RBI to continue on rate-hiking trajectory. The objective will be to take the terminal repo rate to 6.25-6.50% by the end of this fiscal year.

Contact

Rajani Sinha	Chief Economist	rajani.sinha@careedge.in	+91 - 22 - 6754 3525
Shambhavi Priya	Associate Economist	shambhavi.priya@careedge.in	+91 - 22 - 6754 3493
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

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